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Solid Wood Products

Policy Update

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Report Highlights:

According to Russia's Forestry Agency, the amendments introduced to the Forestry Code in 2007 have not proved to be efficient and some of the modifications are difficult to implement. There is poor understanding of the new legislature and a continued lack of coordination between federal and regional authorities. Government efforts to reduce exports of unprocessed wood by increasing export taxes and to attract major foreign investments have failed. However, the Russia's Forestry Agency officials remain optimistic about changes in policy and believe that new incentives can stimulate the forest industry.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Moscow [RS1]
[RS]

Overview

According to Valeriy Roshchupkin, head of the Forestry Agency, the amendments introduced to the Forestry Code in 2007 have not proved to be efficient and some of the modifications are difficult to implement. Furthermore, there is poor understanding of the new legislature while the lack of coordination between federal and regional authorities continues.

Roshchupkin stated that the measures introduced by the government to amend the new Forestry Code were not sufficient to attract significant foreign investments to the forestry sector. In fact, according to him, the preferential approach for investors has failed. Currently the government is in the process of reviewing 86 investment projects valued at \$2.5 billion, of which 40 percent are in Siberia, 10 percent in the Far East and 30 percent in Northwestern Russia. However, none of the projects will be fulfilled within the next year, as not all the measures in the Code are implemented yet due to the lack of legislation to support it.

Exports of raw material continue to soar despite government expectations to significantly cut down shipments of unprocessed wood by increasing export taxes. Experts believe that exports will remain high as companies are aware of the tax increase and will sell as much unprocessed wood as possible. According to Rosstat, Russian exports of wood and products of HTS 44 for Jan-Sept 2007 increased by 36 percent in value to \$6.7 billion compared with the same period in 2006. Exports of rough non-treated wood HTS 4403 increased by 28 percent to \$3.2 million from Jan-Sep 2007 versus the same period of 2006.

In summer 2007, the government passed a resolution on priority investment projects in forestry. The resolution stipulates preferences to investment projects estimated above \$300 million in value, such as providing a future investor with forestry plot without auction, reducing rent fee more than double from the minimal cost, and zero import tax on technological equipment. According to trade sources, the idea of setting a minimum threshold for priority projects of \$300 million dollars is too low and would create a shortage of accessible forestry resources that are economically efficient to exploit. According to the trade, one way for the government to improve efficiency of the forestry industry is to pass a decree subsidizing interest rates for forest producers, similar to the program that focused on interest-rate rebates for loans to agricultural producers under the National Priority Project.

According to market players, the first export tax increase was not effective. Knowing that the export tax will continue to increase, forest producers increased exports while export tariffs were relatively low. According to the regional Forestry Agency in Chita oblast, export of unprocessed wood has increased by 40 percent for the period Jul-Dec 2007. Aleksandr Belyakov, Head of the Committee of Trade and Industrial Chamber of Russia advocates for a complete export ban of valuable species but is in favor of a more flexible export policy for coniferous species.

According to Valeriy Roshchupkin new government incentives should be introduced to attract investments to the industry. According to him, it can be achieved by providing subsidized interest rates to forestry producers and government assistance in building infrastructure such as roads.

Selected Government Resolutions and Orders of the Ministry of Natural Resources of the Russian Federation passed in 2007 in amendment to the New Forestry Code

Document number, title and date	Brief description, document objectives
Resolution # 407 dated June 26, 2007, regarding "Conducting government inventory of forests"	According to Article 90 of the Forestry Code. Government inventory includes activities on monitoring forest conditions, their quality and quantity characteristics, that are conducted by the Federal Forestry Agency. Other objectives of the forest inventory include activities on forest protection and reproduction. Forest inventory is carried out by aerial imagery along with inland methods. Guidelines for conducting government inventory are approved by the Ministry of Natural Resources of the RF.
Government Resolution # 394 dated June 22, 2007, regarding "Approving the provision of conducting government control and surveillance over forests"	According to Article 96 of the Forestry Code of the RF. Resolution of the Government of the Russian Federation #600 dated October 6, 2005, on "Government control over condition, usage, protection of forests and their reproduction" ceased to be in force. According to the new Resolution the objective of the government control and surveillance is enforcement of abiding forestry legislation. The control and surveillance of forests will be conducted by the Federal Service on Surveillance in the sphere of Natural resources utilization and executive bodies of the subject of the Russian Federation.
Government Resolution #377 dated June 18, 2007, "Rules for conducting forest management"	According to Article 67 of the Forestry Code. The rules establish the order for conducting forest management on national forests, municipal forests, and also forests on defense and safety as well as special protected natural reserves. Forest management includes: <ol style="list-style-type: none"> 1) planning of forest districts and forest parks; 2) planning forest sites; 3) defining boundaries of forest districts, sites and parks, protected forests; 4) planning activities for protection and reproduction of forests.
Government Resolution #385 dated June 19, 2007, " Rules for Organization and Conduction Aviation Activities aimed at Preservation and Protection of Forests"	Forestry aviation activities is an integral part of a list of activities aimed at preservation and protection of forests from fires, and other negative effects of natural or anthropogenic character, as well as providing sanitary safety in the forests.
Government Resolution #406 dated June 26, 2007, "Rules of preparing and concluding purchase and sale agreements of forest plantation, that are on government or municipal lands"	The rules define the order for preparation of purchase and sales agreements of forest plantations located on the government and municipal lands.

Government Resolution # 321 dated May 26, 2007, "Changes to Custom Tariff of the Russian Federation"	Zero import tariffs are approved for wood equipment producing MDF (HTS 8479 30 100 1) and granulated and brick wood (HTS 8579 30 100 9). The objective is to stimulate production of deep processing wood products domestically.
Government Resolution # 395 dated June 22, 2007, " Defining the maximum volume of wood, subjected to logging by an individual, or a group of individuals"	According to Article 50 of the Forestry Code of the Russian Federation. The Resolution defines the maximum volume of wood subjected to logging by an individual or a group of individuals, located in the forests at the boundaries of subjects of the Russian Federation should not exceed 35 percent of the total officially approved allowable cut in the forests that are located at the boundaries of all forest districts and forest parks on the territory of the subject of the Russian Federation. According to the official from the Federal Antimonopoly Service this resolution will encourage competition and create barriers to monopolization of the forestry sector.
Government Resolution # 418 dated June 30, 2007, " Approving provisions about details on placing orders for conducting activities on reproduction of forests, protection and concluding agreements	According to Article 19 of the Forestry Code of the RF. The current Provision defines details of placing orders to fulfill activities on forest safety, protection, reproduction, as well as concluding contracts, envisioned in Article 19 of the Federal Forestry Code.
Government Resolution # 417 dated June 30, 2007, "Rules of Fire safety in the Forests"	Current rules define unified requirements for ensuring fire safety in the forests during their usage, protection, safety, reproduction; also when conducting other activities in the forests, including stay of individuals in the forests. The rules are mandatory for implementation by government administration, local administration, and by juridical entities and individuals.
Government Resolution #290 dated May 15 1. Include changes into Resolution Number 795 of the Government of the Russian Federation, from December 23, 2006 regarding "Approving export customs tariff rates for the goods, exported from the territory of the Russian Federation out of the boundaries of states – members of agreements of Customs Union and declaring invalid some resolutions of the Russian Federation Government (collection of Laws of the Russian Federation, 2007, Number 1, article 254;	See GAIN 7055 dated July 26, 2007

Number 16, article 1917), and approve the attached export customs tariff rates.	
Government Resolution # 419 dated June 30, 2007, on "Priority investment projects in forest development"	The resolution stipulates the rules for preparing and approving the list of priority investment projects for forest development". In case the project is acknowledged as priority, the investor receives 50 percent exemption for lease of the forest sites. Contract for lease of the forest sites for the investment project will be granted without an auction. According to the Resolution priority project is considered to be a project or a group of projects that are being carried out by one investor with investments volume not less than 300 million rubles.
Order of the Ministry of Natural Resources #183, dated July 16, 2007	The order sets the rules for reforestation that are applied to the forests across the Russian Federation.
Order of the Ministry of Natural Resources of the Russian Federation # 189 dated July 20, 2007.	The order sets rules for inserting the documented information into the Government Forestry Register. The data on the conditions of forest reserves as of January 1, 2007, are logged into the government register according to Resolution # 611 dated May 20, 1997.
Government Resolution #1305-p dated September 28, 2007, adopted changes to Government Resolution # 69-p dated January 18, 2003	The changes approved by the Resolution brings the Conception of the Russian Forestry Sector development for 2003-2010 in compliance with the new Forestry Code.
Order of the Ministry of Natural Resources of the Russian Federation #258 dated October 4, 2007	The order sets the rules for lease timber contracts in compliance with the Forestry Code of the Russian Federation.
Government Resolution #721 dated October 30, 2007 Include changes into Resolution Number 795 of the Government of the Russian Federation, from December 23, 2006 regarding "Approving export customs tariff rates for the goods, exported from the territory of the Russian Federation out of the boundaries of states – members of agreements of Customs Union"	The Resolution sets zero export tariff rates for railway and tramway sleepers (HTS 4406); particle board and similar board of wood etc. (HTS 4410); several types of cellulose of coniferous wood (HTS 4703 19 000 0, 470411 000 0), certain types of paper and carton (HTS 4802 40, HTS 480254 000 1, 4802 55, 4802 61, 4819 10 000 0). The objective is in the framework of the government incentive to stimulate deep processing of wood domestically and increase export of value added wood products.
Government Resolution #895 dated December 18, 2007, on "Council under the government of the Russian Federation for Developing Forest Industrial Complex	According to the resolution the Council is set as permanent consultative body with the objective to work out issues for implementing government policy in the sphere of development of Forestry Industrial complex of the Russian Federation.

Other Relevant Reports

RS7080 Solid Wood Products / International Forestry Forum
<http://www.fas.usda.gov/gainfiles/200711/146292921.pdf>

RS7048 Solid Wood Products / Tariff Policy Update
<http://www.fas.usda.gov/gainfiles/200707/146291639.pdf>

RS7016 Solid Wood Products / Annual
<http://www.fas.usda.gov/gainfiles/200702/146280195.pdf>